

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :
: :
Tariffs and charges submitted : Docket No. 11-0721
pursuant to Section 16-108.5 of the :
Public Utilities Act :

Corrected Direct Testimony of

Michael P. Gorman

On behalf of

Illinois Industrial Energy Consumers

Project 9543
January 13, 2012

OFFICIAL FILE

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IIEC Direct Exhibit No. 1.0-C

Witness Gorman

Date 3/12/12 Reporter AS



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

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Direct Testimony of Michael P. Gorman

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A My name is Michael P. Gorman and my business address is 16690 Swingley Ridge
3 Road, Suite 140, Chesterfield, Missouri 63017.

4 Q WHAT IS YOUR OCCUPATION?

5 A I am an energy advisor and a consultant in the field of public utility regulation and a
6 managing principal in the firm of Brubaker & Associates, Inc. ("BAI").

7 Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPER-
8 IENCE.

9 A These are set forth in Appendix A to my testimony.

10 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

11 A I am appearing on behalf of the Illinois Industrial Energy Consumers ("IIEC"). The
12 IIEC is an *ad hoc* group of industrial customers eligible to take delivery service from
13 Commonwealth Edison Company ("ComEd" or "Company").

14 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

15 A I will respond to the formula rate submission sponsored by ComEd witness Kathryn
16 Houtsma and other ComEd witnesses in this proceeding. I also propose adjustments
17 to ComEd's proposal that are consistent with the Illinois Commerce Commission's
18 ("Commission" or "ICC") continuing duty to ensure that rates charged to retail delivery
19 service customers are just and reasonable.

20

I. FORMULA RATE OVERVIEW

21 Q DOES THE FORMULA RATE LAW CHANGE IN ANY WAY THE LEVEL OF
22 CUSTOMER PROTECTION IN THE COMMISSION'S RATE-SETTING ACTIVITIES?

23 A No. I understand the new law provides that the Commission is to conduct its review
24 of the formula rate under Article XI of the Public Utilities Act ("PUA"), which continues
25 to govern Commission ratemaking, to the extent it does not conflict with the formula
26 rate provisions of the law. I also note the new law provides, in part:

27 The performance-based formula rate approved by the Commission
28 shall do the following:

29 (1) Provide for the recovery of the utility's actual costs of delivery
30 services that are prudently incurred and reasonable in amount
31 consistent with Commission practice and law. The sole fact that a
32 cost differs from that incurred in a prior calendar year or that an
33 investment is different from that made in a prior calendar year shall
34 not imply the imprudence or unreasonableness of that cost or
35 investment.

36 (2) Reflect the utility's actual capital structure for the applicable
37 calendar year, excluding goodwill, subject to a determination of
38 prudence and reasonableness consistent with Commission
39 practice and law.

40 * * *

41 (220 ILCS 5/16-108.5(c)) (emphasis added).

42 The need for included costs to be prudent and reasonable is repeatedly
43 emphasized. Hence, particular care should be taken to use only prudent and
44 reasonable costs in determining the formula rate.

45 Q DOES THE COMPANY ACKNOWLEDGE THIS DIRECTIVE THAT COSTS WILL
46 NOT BE AUTOMATICALLY RECOVERED THROUGH THE FORMULA RATE
47 WITHOUT A DEMONSTRATION THAT THE COSTS ARE PRUDENT OR
48 REASONABLE?

49 A Yes. At page 5 of her direct testimony (ComEd Ex. 2.0), Ms. Houtsma acknowledges
50 that the formula rate will develop a revenue requirement generally consistent with
51 ComEd's previous delivery service revenue requirement determinations. This
52 appears to acknowledge that Commission examinations of the prudence and
53 reasonableness of cost of service components will continue to be made during the
54 formula ratemaking process. Further, at page 8 of her testimony, she specifically
55 states that costs will not be automatically recovered through the formula rate by virtue
56 of their inclusion in Federal Energy Regulatory Commission ("FERC") Form 1
57 documents. Indeed, she contends that she removes certain costs that are not
58 typically recovered in a revenue requirement developed for determining delivery
59 service rates.

60 ComEd witness Martin Fruehe also acknowledges (at page 7 of his direct
61 testimony, ComEd Ex. 4.0) that the delivery service revenue requirement includes
62 only those costs that are prudently incurred and reasonable in amount for the
63 provision of delivery service.

64 Hence, as seems clear from the wording of the law, and confirmed in
65 acknowledgments by ComEd, costs recorded in ComEd's FERC Form 1 are not
66 automatically included in the formula rate for the determination of delivery service
67 rates. Rather, only reasonable and prudent costs are included in the development of
68 that rate. Consequently, the Commission must assess the costs recorded in
69 ComEd's FERC Form 1 that ComEd proposes for inclusion in the formula rate prior to

70 allowing them as components in the formula rate determination. That assessment of
71 ComEd's proposals is both qualitative (looking at management processes and
72 decisions) and quantitative (looking at the level of costs incurred) and takes account
73 of the relevant circumstances. The quantitative portion of that assessment will be
74 aided by ensuring that relevant data are continuously collected for evaluation in
75 relation to metrics defined as part of the Commission ratemaking process.

76 **II. TARIFF CONTENT AND COMMISSION RESPONSIBILITIES**

77 **Q COMED HAS PROPOSED A VERY DETAILED TARIFF FOR ITS FORMULA RATE.**
78 **IS THE PROPOSED TARIFF (COMED EX. 2.1) A REASONABLE**
79 **IMPLEMENTATION OF SECTION 16-108.5?**

80 **A** No. In my opinion, it is not. I note initially that the statutory provision authorizing the
81 tariff does not contain language that requires the extreme level of detail that ComEd
82 proposes. Much of ComEd's proposed tariff consists of detail that is traditionally
83 included in supporting workpapers for the quantification or justification of factors used
84 in setting rates. A very troubling effect of the form of tariff that ComEd proposes is
85 that it could hinder or effectively eliminate the Commission's exercise of its
86 ratemaking authority. It is my understanding that, even under the formula rate
87 regime, the Commission retains significant authority and has continuing statutory
88 responsibilities respecting the determination of the amounts and kinds of costs
89 included in ComEd's rates.

90 While the formula rate (at least going forward) is intended to assure recovery
91 of a utility's actual delivery service costs, as reflected on its filed FERC Form 1, the
92 Commission retains the statutory obligation to assess whether those costs are

93 prudently incurred and are just and reasonable in amount and to allow only those
94 costs that it finds are in compliance with those requirements. As a practical matter,
95 ratepayers intervening in subsequent formula rate proceedings may face not only the
96 new burden of specific objections to amounts shown on FERC forms, but also
97 arguments that try to immunize any element of the detailed spreadsheet incorporated
98 in the tariff from any examination. Therefore, Rate DSPP – Delivery Service Pricing
99 and Performance (“Rate DSPP”) creates a danger that Commission approval of a
100 tariff that supplants so much of the Commission’s ratemaking and oversight
101 processes could unnecessarily complicate examination of costs to be recovered in
102 rates. The Commission should be clear that its approval of any tariff implementing a
103 formula rate does not diminish or supersede the PUA provisions that continue
104 Commission oversight and ratemaking duties.

105 It does not seem wise for the Commission to unnecessarily compromise or
106 cede any of its remaining ratemaking authority to a tariff spreadsheet. I am
107 concerned that approving a tariff that purports to incorporate so much of the
108 Commission’s traditional cost determination function could be interpreted as having
109 that effect. The Commission also should avoid foreclosing the remaining ratepayer
110 opportunities to examine the costs they are being required to pay.

111 **Q** **COULD YOU PROVIDE AN ILLUSTRATION OF HOW THE COMMISSION’S**
112 **ASSESSMENT OF COSTS TO BE INCLUDED IN FORMULA RATES COULD BE**
113 **COMPROMISED BY THE FORM OF TARIFF COMED HAS PROPOSED?**

114 **A.** Certainly. Suppose ComEd’s expenses for a certain type of widget increased by
115 100% over the expense for the preceding year. The cost incurred is an actual cost,
116 but it is not an increase that the Commission would accept without examination in a

117 rate case, as they have traditionally been conducted under the PUA's Article IX
118 provisions. If that cost item is a specific line item included in a spreadsheet approved
119 as part of a tariff, challenging (and changing, if appropriate) that cost could be more
120 complicated, for the Commission or for ratepayer intervenors.

121 **Q WOULD THE COMMISSION'S REVIEW OF A PARTICIPATING UTILITY'S COSTS**
122 **BECOME LESS MEANINGFUL IF IT WERE PURELY A MATTER OF**
123 **SPREADSHEET CALCULATION ACCURACY, RATHER THAN ASSESSING,**
124 **BASED ON TESTIMONY AND OTHER EVIDENCE, WHETHER THE COST WAS,**
125 **IN FACT, APPROPRIATE AND PROPERLY INCLUDED IN RATES?**

126 **A** Yes. I also believe that type of regulatory oversight (calculation accuracy) falls short
127 of the Commission's statutory obligation to establish just and reasonable rates. The
128 adoption of a performance-based formula should not preclude the Commission from
129 determining appropriate levels of revenues, expenses and rate base.

130 **Q HOW CAN THE COMMISSION MAINTAIN THE EFFECTIVENESS OF RATEPAYER**
131 **REVIEW OF COSTS AND ITS OWN PERFORMANCE OF THE ARTICLE IX**
132 **DETERMINATIONS SPECIFIED IN SECTION 16-108.5?**

133 **A** The Commission should act affirmatively to protect meaningful ratepayer participation
134 in formula rate proceedings and to avoid ceding its own ratemaking function to a tariff.
135 Eliminating the wholesale incorporation of workpapers into the formula rate is an
136 essential practical step. In addition, the Commission should require that participating
137 utilities under Section 16-108.5 provide the detailed information currently required by
138 the Commission's Part 285 and Part 286 standard filing requirements as part of its
139 formula rate filings.

140 It is particularly important that the Commission take such actions in this case.
141 Because this is the first implementation of the formula rate provisions, there is at least
142 a possibility that the conduct of this proceeding (even if it is a flawed first effort to
143 implement new requirements) could establish a pattern or informal procedure that is
144 repeated in future cases. Excessively detailed measures incorporated in a tariff could
145 be even more difficult to change, even when their imperfections later become clear.

146 **Q HAS THE COMPANY PROVIDED ANY TESTIMONY AS TO THE TYPE OF**
147 **INFORMATION IT PLANS TO SUBMIT IN FUTURE FORMULA RATE**
148 **PROCEEDINGS?**

149 A. Yes. At page 16 of Dr. Ross Hemphill's testimony (ComEd Ex. 1.0), he states the
150 Company is following the outline set out in Parts 285 and 286 of the Commission's
151 rules in providing the relevant and necessary data and documentation for the
152 applicable rate year applicable to this filing. However, he further states that the
153 election to do so by the Company does not set any precedent for future filings or
154 proceedings. The Company makes no guarantees as to the type of data it will
155 provide in future proceedings.

156 **Q WHAT ARE YOUR RECOMMENDATIONS FOR THE TYPE OF INFORMATION**
157 **THAT COMED SHOULD PROVIDE IN FUTURE FORMULA RATE FILINGS AND**
158 **PROCEEDINGS?**

159 A I recommend that the Commission require ComEd to provide the detailed information
160 currently required under Parts 285 and 286 of the Commission's rules as part of any
161 formula rate reconciliation filing. This will help to ensure that the Commission and all

162 stakeholders have continued access to the data that is necessary in reviewing all
163 participating utilities' rates in future formula rate proceedings.

164 **Q DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS REGARDING THE**
165 **PROVISION OF DATA BY COMED IN ITS FORMULA RATE PROCEEDINGS?**

166 **A** Yes. I recommend that the Commission require ComEd to file the information now
167 required under Parts 285 and 286 for formula rate proceedings as soon as it
168 becomes available. The information could be filed in an open formula rate docket
169 maintained by the Commission or as formal reports to the Commission. Whatever
170 procedure is used for obtaining the data, the Commission should allow immediate
171 access to this data for all intervenors. Since ComEd must file its FERC Form 1
172 before the date for annual reconciliation filings, early provision of that data should not
173 be difficult or burdensome. In addition, the extremely short deadlines for formula rate
174 proceedings make such measures to facilitate meaningful review reasonable, if not a
175 practical necessity.

176 I also recommend that the Commission grant ongoing or conditional
177 intervention to all intervenors in this case for all future filings regarding ComEd's
178 performance-based formula. Granting ongoing or conditional intervention to these
179 parties will improve the regulatory process and make these proceedings more
180 efficient. This recommendation will allow intervenors timely access to filed
181 information in an open docket or in new annual proceedings without awaiting
182 Commission action on requests to intervene. Alternatively, ComEd should make its
183 FERC Form 1 and other formula rate supporting documents immediately available to
184 stakeholders and Staff to permit early investigation of formula rate schedule impacts.

185 Q DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS WITH RESPECT TO
186 COMED'S FORMULA RATE PROCEEDING?

187 A Yes. I recommend that the Commission establish a docket to investigate the formula
188 rates after ComEd's formula rate has been in effect for three years. This docket
189 should include a formal review of the implementation of the Company's formula rate
190 and consider how the formula rate process has performed under Article IX standards,
191 as well as considering stakeholders' input regarding improvements necessary to the
192 formula rate process.

193 **Rate DSPP Structure**

194 Q DOES THE NEED TO POPULATE THE FORMULA RATE REQUIRE
195 INCORPORATION OF THE LEVEL OF TARIFF DETAIL THAT COMED
196 PROPOSES?

197 A I am not a lawyer, but as a participant in numerous rate proceedings, I can say that
198 utility tariffs have functioned adequately without having the workpapers underlying
199 rates – even formula rates – incorporated in the tariff text. Similarly, the many
200 determinations that the Commission makes in identifying and assessing the
201 appropriateness of costs to be recovered also have not been needed in the rate tariffs
202 themselves.

203 Q DOES THE LEVEL OF DETAIL PROPOSED BY COMED ENHANCE THE
204 TRANSPARENCY OF THE RATEMAKING PROCESS?

205 A No. It does precisely the opposite. Even relatively simple utility tariffs are difficult to
206 comprehend for non-utility people, including most ratepayers. ComEd's incorporation

207 of a voluminous 12 Schedule and 13 Appendix spreadsheet that uses arcane
208 technical terms and abbreviations makes understanding the tariff very difficult.

209 For example, ComEd's rate base is developed on Schedule FR B-1, which
210 references several lines of the FERC Form 1 data, and also utilizes six Appendix
211 Schedules. This schedule is one of 12 schedules and 13 appendices needed to
212 develop the revenue requirement on Schedule FR A-1. Clearly, this calculation
213 process is complex and highly technical.

214 ComEd's claim of transparency is unfounded and the proposed tariff form is
215 likely very confusing for people not trained in utility tariffs and regulatory rate-setting.

216 **Q WHAT DO YOU RECOMMEND CONCERNING THE STRUCTURE OF RATE**
217 **DSPP?**

218 **A** I recommend the published Rate DSPP simply include the rate service terms and
219 conditions similar to ComEd's current rate structure. The Excel component of the
220 formula rate used by Ms. Houtsma can be included in the formula rate standard
221 filing requirements, along with all the data necessary to populate the spreadsheet.
222 Further, as noted above, early access to this cost of service data is critical in
223 order to ensure that all interested stakeholders have an opportunity to respond to
224 the Company's determination of the formula rate in a timely manner. Those
225 parties that have the expertise and are willing to take the time to advise the
226 Commission on the appropriate development of the rate can use the formula rate
227 schedule proposed by Ms. Houtsma with the modifications I describe later in this
228 testimony, along with immediate access to all data necessary to produce the
229 calculations in the annual regulatory proceedings to establish the rates.
230 Customers and other stakeholders that simply want to have quick access to

231 ComEd's rates can do so in a relatively administratively non-burdensome manner
232 similar to how rates can be investigated by customers currently.

233 **Q IS COMED'S PROPOSED RATE DSPP SIMILAR TO ITS FERC**
234 **TRANSMISSION RATE, AND IF SO WHY DO YOU PROPOSE A MORE**
235 **STREAMLINED AND SIMPLE RATE DSPP?**

236 **A** ComEd's proposed Rate DSPP is similar in form to its FERC transmission rate.
237 However, ComEd's FERC transmission rate is a wholesale rate which is generally
238 reviewed by more sophisticated market participants. For example, ComEd's
239 FERC transmission rate is generally used and reviewed by municipal and
240 cooperative utility operators, wholesale/retail load-serving entities, and
241 generation-owning entities. Generally speaking, these are all very sophisticated
242 market participants that are fully capable of understanding ComEd's formulaic
243 FERC Open Access Transmission tariff rate.

244 In significant contrast, ComEd's retail rate will be used by customers that
245 have very little to no background in the rate-setting process, but nevertheless
246 need access to ComEd's delivery rates in order to manage power cost and project
247 their cost of electricity necessary to set budgets. Hence, the sophistication of
248 retail customers is very different than that of wholesale customers. Therefore, I
249 believe it is in the public interest to keep ComEd's retail Rate DSPP simple and
250 understandable to non-rate-case experts so retail customers can understand Rate
251 DSPP and its terms and conditions.

252 **ComEd Average Three-Year Rate Increase Calculation**

253 Q UNDER SECTION 16-108.5(G), IS COMED REQUIRED TO REPORT TO THE
254 COMMISSION ITS AVERAGE ANNUAL RATE INCREASES? .

255 A Yes. It is my understanding that, by July 31, 2014, ComEd must report to the
256 Commission its average annual increase per kWh in the rates for electric service paid
257 by residential customers over the previous three years (June 1, 2011 to May 31,
258 2014). If the total amount paid per kWh, excluding the effects of energy efficiency
259 programs, increases by more than 2.5% per year on average, ComEd shall no longer
260 be eligible to update its Rate DSPP and the existing rates will remain in effect until
261 the Commission enters an order following a traditional rate case.

262 Q HAS COMED SPECIFICALLY IDENTIFIED IN ITS TESTIMONY THE STARTING
263 POINT RESIDENTIAL RATE (AS OF JUNE 1, 2011) THAT WILL BE USED IN THE
264 THREE-YEAR AVERAGE INCREASE CALCULATION?

265 A No, it has not.

266 Q WHAT IS YOUR RECOMMENDATION FOR THE RESIDENTIAL RATE AS OF
267 JUNE 1, 2011 TO BE USED IN COMED'S THREE-YEAR AVERAGE INCREASE
268 CALCULATION?

269 A I recommend that the residential rate reflect the rate ordered in the Commission's last
270 ComEd delivery service rate order adjusted for a cost of equity that is calculated as
271 the sum of 580 basis points plus the average for 2011 of the monthly yields of
272 30-year U.S. Treasury bonds. If the residential rate as of June 1, 2011 does not
273 reflect the adjusted cost of equity, ComEd's residential rate under the formula rate

274 plans compared to the current residential rate, presents an initial rate reduction that
275 would distort the measurement of the formula rate's year-to-year increases. The cost
276 of equity adjustment is consistent with Dr. Hemphill's testimony.

277 Dr. Hemphill's testimony at page 14 states that the FR A-1-REC filed on
278 May 2012 will include the actual 2011 revenue requirement that reflects a cost of
279 equity that is calculated as the sum of 580 basis points plus the average for 2011 of
280 the monthly average yields of 30-year U.S. Treasury bonds. ComEd proposed this
281 cost of equity adjustment to the 2011 revenue requirement included in the FR A-1-
282 REC in the event that the Trailer Bill would become effective. It is my understanding
283 that the Trailer Bill became effective January 1, 2012. As a result, it is appropriate to
284 include the adjusted residential rate revenues for the 12-month period ending May 31,
285 2012 in ComEd's average annual increase calculation.

286 **Q DO YOU HAVE ANY OTHER CONCERNS WITH THE 2.5% RESIDENTIAL RATE**
287 **INCREASE THRESHOLD?**

288 **A** Yes. I am concerned that the 2.5% residential rate increase threshold presents an
289 incentive for ComEd to shift costs to other rate classes to prevent the residential rate
290 increasing by more than 2.5%. If the residential rate increase averages greater than
291 2.5% for the residential class, ComEd's Rate DSPP can no longer be updated. I
292 strongly recommend that the Commission require that the average rate increase
293 calculation for the residential class exclude the effects of changes in class rate
294 design. This will prevent unjustified cost shifts between rate classes by ComEd.

295 Q PLEASE DESCRIBE HOW THE REMAINDER OF YOUR TESTIMONY WILL BE
296 ORGANIZED.

297 A I will propose adjustments to the various schedules underlying the Company's
298 proposed Rate DSPP. Each of these proposed adjustments is made to ensure that
299 the rate is limited to recovery of only prudent and reasonable cost of service
300 components, consistent with the new law, standard regulatory practices, and the
301 Commission's obligation to protect customers. These changes in the schedules
302 underlying the formula rate calculation for the purpose of the Commission's
303 evaluation of ComEd's costs do not require that the schedules be included in the
304 formula rate tariff.

305 **III. PROPOSED ADJUSTMENTS TO RATE DSPP SCHEDULES**

306 **Schedules FR A-1 and A-1-REC**

307 Q DO YOU RECOMMEND AN ADJUSTMENT TO SCHEDULE FR A-1?

308 A Yes. I recommend certain calculation modifications and procedure-related ceilings on
309 costs that can be recovered in the development of the Company's revenue
310 requirement. Those modifications include the following:

- 311 1. A predetermined level of regulatory (i.e., rate case expense), affiliate
312 charges, and incentive compensation expenses. To the extent ComEd's
313 actual expenses are beneath these levels, the Commission may choose to
314 include them directly in the formula rate. To the extent the expenses
315 exceed the specified levels, the Commission will exercise its authority to
316 initiate an investigation of the proposed rates as provided in the formula
317 rate provisions and Article IX of the PUA. The Company would then need
318 to provide evidentiary support for a favorable Commission determination
319 on the prudence and reasonableness of these expense levels.
- 320 2. The Company's earnings collar should not be incorporated in the
321 reconciliation component of the revenue requirement. That is, the
322 reconciliation should be to the nominal return level, without consideration
323 of either the upper or lower portion of the earnings tolerance band.

324 Rather, I propose the earnings collar revenue adjustments be identified
325 individually in Schedule FR A-1, and interest expense calculated
326 separately on the earnings collar component. Identifying the earnings
327 collar separately in the revenue requirement will make it more transparent,
328 and help the Commission gauge whether or not the formula rate is
329 consistently setting rates that produce excessive or deficient earnings. As
330 such, moving it directly into Schedule FR A-1 makes it a more transparent
331 component of the formula rate and properly separates it from the
332 reconciliation Schedule FR A-1-REC component of Rate DSPP.

333 3. I propose a limitation on incentive compensation be included in the
334 formula rate only to the extent that the reliability metrics proposed by
335 ComEd and ultimately adopted by the ICC are satisfactorily met. This will
336 provide management an incentive to expend necessary resources to meet
337 the reliability standards, otherwise they put their incentive compensation at
338 risk to the extent it would not be recovered directly from retail customers.

339 **Regulatory Expenses and Affiliate Charges Expenses**

340 **Q SHOULD REGULATORY EXPENSES RECOVERED THROUGH THE FORMULA**
341 **RATE BE LIMITED TO NO MORE THAN A STATED VALUE?**

342 **A** Yes. Regulatory expenses should be limited to a reasonable amount for inclusion in
343 the formula rate. I recommend the Commission establish a stated amount of this
344 expense that will act as a ceiling amount for expense that may be automatically
345 included in the formula rate. To the extent ComEd's actual expense is equal to or
346 less than the stated amount, it could be automatically included in the formula rate. If
347 these expenses exceed the stated amount, then ComEd can either include the stated
348 ceiling amount in the formula rate or the Commission will initiate an investigation of
349 the proposed amount to determine whether the higher amount is reasonable and
350 prudent.

351 Q WHY DO YOU BELIEVE THESE REGULATORY EXPENSES SHOULD BE
352 LIMITED TO NO MORE THAN A STATED VALUE?

353 A Because regulatory expenses should be managed aggressively in a formula rate
354 context. To the extent these expenses are not managed or do not get critical
355 review in a rate case, ComEd would have no incentive to manage these costs.
356 Further, if these costs are simply passed through with no demonstration of their
357 reasonableness, the level of regulatory expense simply can get out of hand and
358 receive no regulatory oversight and discipline. As such, maintaining regulatory
359 oversight and discipline of regulatory expense will benefit customers and ensure
360 that the formula rate is just and reasonable.

361 Q BY LIMITING THESE EXPENSES TO A STATED AMOUNT, ARE CUSTOMERS
362 PROTECTED?

363 A Yes. ComEd has decided to recover its costs for delivery services through a
364 performance-based formula which requires annual reviews. Therefore, each year
365 ComEd will incur regulatory expenses to file the performance-based formula.
366 Regulatory expense will be a recurring annual charge which should be managed
367 aggressively.

368 Q WHAT STATED LEVEL OF REGULATORY EXPENSE DO YOU RECOMMEND?

369 A In ComEd's last rate case, an annual normalized regulatory expense of \$2.4 million
370 was included in rates. I believe this level of regulatory expense actually is likely more
371 than necessary to cover ComEd's cost in a formula rate proceeding because its
372 activities in a rate case should be much lower now than they were over the full rate
373 case. Nevertheless, it does represent a maximum level of regulatory expense or

374 stated value of regulatory expense necessary to gauge whether or not ComEd's
375 regulatory activities and costs are reasonable for inclusion in a formula rate without a
376 full Commission review of these expenses.

377 **Q DO YOU BELIEVE AFFILIATE CHARGES SHOULD BE LIMITED TO A FIXED**
378 **AMOUNT?**

379 **A** Yes. Like regulatory expenses, affiliate charges will not receive regulatory
380 scrutiny within a rate case, if simply plugged in at the recorded value in a formula
381 rate. Therefore, including a stated value in a formula rate will ensure that
382 customers pay no more than a reasonable level of this expense. To the extent
383 that stated value is understated, ComEd should have the ability to come in and
384 adjust the cost to a reasonable level. However, including a stated amount in a
385 formula rate and allowing ComEd to recover no more than the stated amount will
386 ensure that these costs are just and reasonable, or that ComEd is required to
387 prove an expense higher than that is just and reasonable.

388 **Q WHAT STATED LEVEL OF AFFILIATE CHARGES EXPENSE DO YOU**
389 **RECOMMEND?**

390 **A** I recommend the same level of affiliate charges expense included in ComEd's last
391 rate case be set as the stated value for the formula rate going forward. ComEd
392 should identify all affiliate charges included in its last rate order to use as this stated
393 value. If this level of affiliate charges expense increases in future formula rate plans,
394 ComEd can seek a change from the Commission, or the Commission can investigate
395 ComEd's success in managing these costs in future cases before the increased cost
396 is used to set rates.

397 Q HOW CAN COMED REQUEST THE COMMISSION TO ACCEPT A HIGHER
398 PROPOSED EXPENSE, IF IT BELIEVES THAT REASONABLE AND PRUDENT
399 LEVELS OF THESE EXPENSES EXCEED THE STATED AMOUNT?

400 A The Commission would consider the proposed expenses using the same criteria it
401 would use in a traditional rate proceeding.

402 **Incentive Compensation**

403 Q DOES SECTION 16-108.5 ADDRESS INCENTIVE COMPENSATION?

404 A Yes. The Statute provides for recovery of incentive compensation expense that is
405 based on the achievement of operational metrics, which include budget control,
406 customer outages, safety, customer service, efficiency, productivity and
407 environmental compliance.

408 Q DO YOU HAVE A RECOMMENDATION REGARDING INCENTIVE
409 COMPENSATION FOR PURPOSES OF THIS PROCEEDING?

410 A Yes. I recommend that the Commission require ComEd to base its incentive
411 compensation payments at a minimum on achieving the goals or metrics established
412 by the Statute. ComEd should be required to meet the multi-year metrics contained
413 within 16-108.5 and consistent with ComEd's metrics filing in Docket No. 11-0772.

414 Q HOW SHOULD THE INCENTIVE PAYMENTS BE ESTABLISHED DURING THIS
415 PERIOD OF FORMULA RATES?

416 A ComEd's incentive payments to be included in the formula should be structured such
417 that achieving or exceeding the metrics thresholds would allow ComEd to include

418 incentive payments at the target level in the formula rate. If ComEd failed to achieve
419 the target metrics, no incentive payments would be included in the formula rate.

420 The purpose of the performance-based formula was to allow utilities to
421 refurbish, rebuild, modernize, and expand systems to continue to provide safe,
422 reliable, and affordable service to utility customers. These metrics are consistent with
423 mutual shareholder/ratepayer goals which support recovery of incentive
424 compensation from customers if the goals are met. As part of that plan, certain
425 metrics were established for a utility to meet to continue to operate under a
426 performance-based formula. My testimony merely ties those metrics to the payments
427 of incentive compensation.

428 **Q SHOULD COMED'S INCENTIVE PAYMENTS BE INCLUDED IN THE FORMULA**
429 **RATE IF THOSE METRICS ARE NOT ACHIEVED?**

430 **A** No. It is my understanding if those metrics are not achieved that ComEd will face
431 some form of penalty in the formula. I do not believe ComEd should be entitled to
432 include incentive payments in the formula if it was not able to meet the metrics
433 included in the legislation.

434 **Q ARE YOU TAKING A POSITION ON WHETHER COMED ACTUALLY MAKES**
435 **INCENTIVE PAYMENTS TO ITS EMPLOYEES?**

436 **A** No. I want to be very clear that I am not setting the standards for whether ComEd
437 pays its employees incentive compensation or not. I am providing recommendations
438 regarding the inclusion of incentive payments in the performance-based formula.

439 Q PLEASE SUMMARIZE YOUR TESTIMONY REGARDING THIS ISSUE.

440 A I am proposing that ComEd's incentive payments included in the performance-based
441 formula should be tied to the metrics ComEd has agreed to meet during the tenure of
442 this performance-based regulation period. If ComEd fails to meet its goals, then I
443 recommend that no incentive payments be included in the formula.

444 **Earnings Collar**

445 Q PLEASE DESCRIBE COMED'S PROPOSED SCHEDULE FR A-4 AND THE ROLE
446 IT PLAYS IN THE DETERMINATION OF THE COMPANY'S FORMULA RATES.

447 A ComEd's earnings collar allows it to adjust prospective revenues from customers if its
448 historical period earnings produce an earned return on equity that is out of range of a
449 50 basis point bandwidth around the target return on equity. If ComEd's earned
450 return is 100 basis points over that return on equity threshold, then 50 basis points
451 are converted into a revenue credit and used to reduce revenue requirements
452 prospectively. Alternatively, if its earned return is 100 basis points lower than this
453 threshold, then 50 basis points would be converted to a revenue requirement charge
454 to customers, and recovered prospectively. The objective of the earnings collar is to
455 true-up ComEd to ensure that its actual earned return is within 50 basis points plus or
456 minus of this earnings target.

457 Q DO YOU HAVE ANY RECOMMENDATIONS REGARDING SCHEDULE FR A-4?

458 A Yes. I have the following recommendations:

459 1. The earnings collar results should be included directly in Schedule FR A-1
460 and not included in Schedule FR A-1-REC, as proposed by ComEd. An
461 interest calculation on the collar computation should be calculated
462 separately from the reconciliation adjustment.

463 2. The earnings collar should not be included in Schedule FR A-4.

464 **Q PLEASE DESCRIBE YOUR UNDERSTANDING OF THE EARNINGS COLLAR.**

465 A As I understand it, the purpose of the earnings collar is to maintain ComEd's rates
466 within a 100 basis point range (50 basis points +/-) of a formula return on equity. The
467 collar assures that ComEd will achieve a return on equity within that range and avoid
468 any return-based rate adjustments unless there is at least a 50 basis point variance
469 from the calculated equity return level.

470 **Q WHY SHOULD THE EARNINGS COLLAR NOT BE INCLUDED IN THE**
471 **RECONCILIATION ADJUSTMENT BUT RATHER BE INCLUDED DIRECTLY IN**
472 **THE REVENUE REQUIREMENT DETERMINATION ON SCHEDULE FR A-1?**

473 A This is appropriate for several reasons. The earnings collar is not part of the
474 reconciliation determination. The earnings collar, as I understand it, simply
475 determines whether or not the actual revenues from the historical period produced
476 earnings that are outside the earnings tolerance bands. If there are earnings outside
477 the tolerance bands, then revenues will either be credited or additional charges will
478 be made to customers in the subsequent year. Conversely, the revenue
479 reconciliation is a gauge to determine whether or not the formula rate's method of
480 forecasting revenue requirement relative to the historical year, produces a revenue
481 requirement reasonably consistent with what the actual cost of service components
482 will be in the year preceding the rate year. I believe this is a separate determination
483 from reconciling a forecasted revenue requirement with a revenue requirement being
484 developed from actual data.

485 Q WHY SHOULD THE EARNINGS ADJUSTMENT BE MADE DIRECTLY TO COMED
486 REVENUE REQUIREMENT?

487 A Schedule FR A-1 determines the estimated revenue requirement for the current year
488 and establishes the rate to be charged ComEd's ratepayers in the subsequent year.
489 The collar computation determines if additional revenues need to be collected or
490 credited back to ratepayers to maintain ComEd's formula return on equity within the
491 statutory range. The potential adjustment does not represent a cost that should be
492 included in the calculated revenue requirement.

493 If the results of the collar adjustment are reflected directly in Schedule FR A-1,
494 that is, in the formula revenue requirement derived from FERC Form 1 data, then
495 ratepayer rates for the next year will reflect this credit/charge in rates. This will allow
496 ComEd to currently recover any shortfall in return on equity or credit ratepayers for
497 any excess revenues collected by ComEd. Placing the earnings collar revenue
498 requirement adjustment directly in Schedule FR A-1 will make it more obvious
499 whether the formula rate skews the development of revenues in one direction or
500 another. For example, if earnings are consistently producing credits to customers,
501 then it is reasonable to believe that the formula rate seems to overstate the level
502 necessary to provide ComEd fair compensation. If the opposite is true, then the
503 formula rate may not provide ComEd a reasonable opportunity to earn its authorized
504 return. Further, stating it separately on Schedule FR A-1 will make it clear how much
505 of an impact the earnings collar has in the development of revenue requirement
506 prospectively, and ultimately the cost to customers of this feature of the formula rate.
507 While it could be evident through a review of the reconciliation schedule, separately
508 stating it on the revenue requirement schedule is consistent with the transparency
509 objective of the formula rate.

510 Q HOW DO YOU PROPOSE TO MODIFY SCHEDULE FR A-1 AND SCHEDULE FR
511 A-1-REC TO ACCOMMODATE THIS CHANGE?

512 A I recommend a line be added after line 24 to include an earnings collar revenue
513 requirement adjustment on Schedule FR A-1. On Schedule FR A-1-REC, I
514 recommend line 24, ROE Collar Adjustment, be removed. And on that same
515 schedule, the Net Revenue Requirement – Reconciliation shown on line 25 would be
516 changed to line 23.

517 **Schedule FR B-1 – Rate Base Summary Computation**

518 Q PLEASE DESCRIBE COMED'S PROPOSED SCHEDULE FR B-1 AND THE ROLE
519 IT PLAYS IN THE DETERMINATION OF THE COMPANY'S FORMULA RATE.

520 A This schedule and related appendices are used to develop the rate base component
521 of ComEd's revenue requirement. Rate base is then used as a component of the
522 approved operating income, and income tax expense, and is also used to assess the
523 depreciation expense.

524 Q PLEASE SUMMARIZE YOUR PROPOSED ADJUSTMENTS TO SCHEDULE FR
525 B-1.

526 A There are several adjustments I think are appropriate in order to more accurately
527 measure ComEd's rate base and revenue requirement. Those adjustments include
528 the following:

- 529 1. Use of an average year rate base rather than ComEd's proposed year-end
530 rate base;
- 531 2. ComEd's pro forma plant additions should be expanded to include
532 accumulated deferred income taxes associated with a roll-forward of
533 accumulated depreciation.

534 3. A cash working capital adjustment to recognize the nature of certain tax
535 collections and payments; and

536 4. An adjustment to remove CWIP from rate base.

537 **Average Year Rate Base**

538 **Q WHY DO YOU BELIEVE IT IS APPROPRIATE TO USE AN AVERAGE YEAR**
539 **RATE BASE RATHER THAN AN END-OF-YEAR RATE BASE IN RATE DSPP?**

540 **A** An average year rate base will more accurately measure ComEd's rate year cost of
541 service, and can be used to more accurately reconcile ComEd's forecasted versus
542 actual revenue requirements.

543 **Q PLEASE EXPLAIN WHY AN AVERAGE YEAR RATE BASE MORE ACCURATELY**
544 **MEASURES COMED'S COST OF SERVICE.**

545 **A** Plant in-service can change with capital additions and retirements throughout the
546 year. As a result, ComEd's net plant in the beginning of the year will change by
547 year-end. Therefore, ComEd's annual operating income should be based on its
548 actual balance of invested utility plant and equipment during the year. A fair
549 operating income is best measured using an average year rate base.

550 Use of an end-of-year rate base will overstate the amount of capital ComEd
551 actually had in-service during the year if there are significant amounts of capital
552 investment made during the year. As such, an end-of-year rate base will overstate
553 ComEd's revenue requirement, or cost of service, incurred to provide service within
554 the year. A more accurate measure of its cost would be tied to an average year rate
555 base, not end-of-year rate base.

556 Q HOW DO YOU PROPOSE TO CORRECT COMED'S RATE DSPP SCHEDULES TO
557 REFLECT AN AVERAGE YEAR RATE BASE?

558 A I propose the following corrections:

559 1. Schedule FR B-1 "Rate Base Summary Computation," additional DS
560 (Delivery Service) jurisdictional rate base items, and projected plant
561 additions and accumulated reserve adjustments should be adjusted to
562 reflect only six months of capital additions and roll-forward of accumulated
563 depreciation reserve. This could be approximated by dividing ~~lines 49 and~~ ^{line 54}
564 ~~49~~ by 2. This would result in a forecast of average year adjustments to the
565 historical test year rate base.

566 2. On Schedule FR A-1 – REC "Net Revenue Requirement Computation" the
567 Rate Base Reconciliation (cited at Schedule FR B-1, line 49) should
568 actually relate to net property plant and equipment on Schedule FR B-1,
569 line 34. The cite for line 49 is not correct.

570 3. Also on Schedule FR A-1 – REC, line 12, citing Schedule FR B-1, line 41
571 for rate base reconciliation, should be based on an average year rate
572 base. This average rate base would be computed on Schedule FR B-1,
573 using the same sources as referenced on that schedule for lines 1 through
574 34, but using beginning-of-year and end-of-year FERC Form 1 data, and
575 taking the average of the two to produce an average year rate base. This
576 average year rate base would then be used for the reconciliation.

577 Accumulated Deferred Income Tax

578 Q DID COMED INCLUDE THE ROLL-FORWARD OF ACCUMULATED
579 DEFERRED INCOME TAX IN ITS RATE BASE FOR THE POST-HISTORICAL
580 PERIOD PLANT ADDITIONS?

581 A No. ComEd added projected plant additions in the roll-forward of accumulated
582 depreciation on Schedule FR B-1, lines 35-54. However, it did not include a
583 roll-forward of accumulated deferred income tax to properly measure the impact
584 on rate base created by these post-historical test year plant additions. As such,
585 ComEd has overstated the amount of rate base impact created by these post-test

586 year plant additions. Therefore, the formula rate overstates the forecasted rate
587 base.

588 **Q HOW SHOULD COMED REVISE ITS SCHEDULE FR B-1 TO ACCOUNT FOR**
589 **THESE ACCUMULATED DEFERRED INCOME TAX ROLL-FORWARD**
590 **ADJUSTMENTS?**

591 A ComEd should expand Schedule FR B-1 for a projection of roll-forward of
592 accumulated deferred income taxes associated with this post-test year period. I
593 recommend ComEd include additional lines on this schedule for a subheading
594 including projected accumulated deferred income tax associated with these plant
595 additions. And then the last line currently stated as "DS Rate Base" should reflect
596 historical plant additions, projected plant additions, roll-forward of accumulated
597 depreciation, and the roll-forward of accumulated deferred income taxes.

598 **Cash Working Capital ("CWC")**

599 **Q DO YOU HAVE ANY PROPOSED ADJUSTMENTS TO THE CWC CALCULATION?**

600 A Yes. I have two proposed changes to Mr. Hengtgen's CWC calculation. I also have
601 a recommendation regarding another aspect of the CWC calculation.

602 **Q PLEASE DESCRIBE YOUR TWO PROPOSED ADJUSTMENTS.**

603 A My proposed adjustments are changes to the revenue lags assigned to: (1) the
604 Energy Assistance Charges/Renewable Energy Charges ("EAC/REC"); and (2) the
605 Gross Receipts Tax/Municipal Utility Taxes ("GRT/MUT").

606 In his direct testimony, Mr. Hengtgen testifies on page 11 that the revenue
607 lags for these taxes are the same because these taxes are included as part of the
608 customer's bill. I agree with Mr. Hengtgen that the revenues collected for taxes and
609 service are remitted to ComEd. However, what Mr. Hengtgen has failed to recognize
610 is that the taxes I have listed above are payable **after** the revenues have been
611 collected including those taxes.

612 In Mr. Hengtgen's testimony, he discusses the payment of GRT/MUT taxes.
613 Mr. Hengtgen's testimony states:

614 Gross Receipts Tax/Municipal Utility Taxes (GRT/MUT): Gross
615 receipts taxes are payable to the City of Chicago ("City") and
616 numerous other municipalities in northern Illinois based on the
617 municipal ordinances and are **due on or before the last day of the**
618 **month following the month during which the tax is collected or is**
619 **required to be collected.** (Hengtgen Direct Testimony, ComEd
620 Ex. 8.0, lines 218-222, emphasis added).

621 In addition, Mr. Hengtgen discusses the payment of EAC/REC charges.
622 Mr. Hengtgen's testimony states:

623 Energy Assistance Charges/Renewable Energy Charges (EAC/REC):
624 ComEd pays into a fund managed by the State of Illinois to assist low
625 income customers in paying their utility bills. By statute, ComEd is
626 required to **pay monthly into the fund, by the 20th day of the**
627 **month following the month in which the charges are collected.**
628 (*Id.*, lines 211-215, emphasis added).

629 As can be seen from the above portions of Mr. Hengtgen's testimony, the
630 payments of those costs are not due until after the charges or taxes have been
631 collected from ComEd's ratepayers. ComEd's proposal to assign the revenue lag to
632 these taxes is inappropriate.

633 Q HAS THE COMMISSION RULED ON THIS ISSUE IN THE PAST?

634 A Yes. In ComEd's most recent rate case (ICC Docket No. 10-0467), the Commission
635 Order contained Appendix A – Page 17, which detailed the CWC requirement allowed
636 by the Commission. Reviewing that Appendix clearly shows that the revenue lag for
637 those taxes should be assigned a zero day lag.

638 Q HOW DO YOU PROPOSE TO CHANGE SCHEDULE FR B-1 FOR THE CWC
639 MODIFICATION?

640 A The CWC component of rate base can be properly measured by changes in
641 Appendix 3 to these lead/lag components. I recommend that in Appendix 3 the
642 following changes be made under column D:

643 1. Lines 2 and 3 should be changed from a revenue lag of 51.25 days down
644 to 0 days.

645 This adjustment will reduce ComEd's CWC allowance down to a level more
646 consistent with the last rate case, and be a more appropriate working capital
647 allowance for formula rate purposes.

648 Q DO YOU HAVE ANY COMMENTS RELATED TO COMED'S CWC
649 CALCULATIONS?

650 A Yes. I recommend the Commission study an appropriate method for estimating
651 ComEd's CWC. I believe ComEd's proposal for a revenue lag of 51.25 days is
652 unreasonable, and a revenue lag closer to 35 to 40 days would be more
653 appropriate. I state this based on my understanding that residential and non-
654 residential customers have approximately 21 days to remit payment to ComEd
655 before their bills are rendered late. With these tariff provisions, the revenue lag

656 should be substantially less than that reflected by ComEd in its CWC allowance.
657 Hence, ComEd's CWC allowance currently reflects significant payments for
658 customers on the whole paying their bills late. That results in an excessive
659 amount of CWC. As such, while I do not recommend any changes in this case, I
660 do recommend the Commission investigate this issue to develop an appropriate
661 methodology that measures an accurate amount of CWC needed by ComEd so it
662 can provide service to its customers, assuming all customers comply with the
663 service terms and conditions laid out in ComEd's tariffs.

664 **Schedule FR D-1**

665 **Q PLEASE DESCRIBE COMED'S PROPOSED SCHEDULE FR D-1 AND THE ROLE**
666 **IT PLAYS IN THE DETERMINATION OF THE COMPANY'S FORMULA RATES.**

667 A This schedule develops the components of the overall rate of return which is
668 ultimately applied to rate base in order to produce the operating income component,
669 and related income tax expense of revenue requirement in Schedule FR A-1.

670 **Q DO YOU RECOMMEND AN ADJUSTMENT TO SCHEDULE FR D-1?**

671 A Yes. In order to ensure that the Company continues to manage its capital costs to be
672 reasonable and prudent, the Commission should define limits on when a capital
673 structure is reasonable. If a utility's capital structure contains an excessive amount of
674 common equity, then the utility's capital cost will be excessive and unreasonable.
675 Therefore, I recommend the Commission set a range for the common equity ratio
676 within ComEd's total capital that can be automatically used in the formula rate.

677 Q CAN YOU EXPLAIN WHY A CAPITAL STRUCTURE COMPOSED OF TOO MUCH
678 COMMON EQUITY WOULD RESULT IN AN UNREASONABLE COST OF
679 CAPITAL?

680 A Yes. The capital structure should be balanced with an appropriate amount of equity
681 and debt to minimize the cost of capital while maintaining the utility's financial
682 integrity. A capital structure too heavily weighted with common equity will
683 unnecessarily increase the cost of capital because common equity is the most
684 expensive form of capital and is subject to income tax expense. Conversely, a capital
685 structure too heavily weighted with debt capital will unnecessarily increase the
686 Company's financial risk, and drive up its cost of capital.

687 A reasonably balanced capital structure includes a reasonable weight of debt
688 and equity capital, and will minimize the utility's overall cost of capital, and maintain
689 its financial integrity.

690 Q WHAT IS YOUR PROPOSED CAPITAL STRUCTURE COMMON EQUITY RATIO
691 LIMITS?

692 A I recommend a common equity ratio of limit of 55%. Limiting the Company's
693 development of an overall rate of return to a capital structure which includes a
694 common equity ratio of no more than 55% will ensure that ComEd's overall cost of
695 capital reflects reasonable cost management under most circumstances.

696 Q ARE YOU AWARE OF ANY PRECEDENT WHERE COMED HAS A FORMULA
697 RATE THAT INCLUDES A CAP ON THE COMMON EQUITY RATIO?

698 A Yes. ComEd's formula transmission rate set by the FERC contains a restriction that
699 the common equity ratio should not exceed 55%.¹

700 Q HOW CAN SCHEDULE FR D-1 BE MODIFIED TO REFLECT A COMMON EQUITY
701 RATIO LIMIT?

702 A This can be accomplished on Schedule FR D-1 by limiting line 7 to no more than
703 55%. Part of the protocol should state that if line 7 is greater than 55% then the
704 difference between the actual calculation of line 7 and 55%, should then be added to
705 the proportion of long-term debt shown on line 8. The function would be as follows:

- 706 1. If line 7 is 55% or less, then the calculation shown on that line would be
707 used to develop column C.
- 708 2. If the calculation under column B produces a number greater than 55%,
709 then 55% would be entered under column C for line 7.
- 710 3. If the product of the calculation described under column B is more than
711 55%, then the difference between the actual equity ratio percentage
712 calculation and 55% should be added to the percentage of long-term debt
713 on line 8 under column C.

714 Under this methodology, if the common equity ratio exceeds 55%, then the
715 excess of common equity ratio of total capital above 55% would be added to the
716 percentage of long-term debt to total capital.

717 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

718 A Yes.

¹ComEd's 2010 FERC Form 1 at 123.11.

Qualifications of Michael P. Gorman

719 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

720 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
721 Chesterfield, MO 63017.

722 Q PLEASE STATE YOUR OCCUPATION.

723 A I am a consultant in the field of public utility regulation and a Managing Principal with
724 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

725 Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK
726 EXPERIENCE.

727 A In 1983 I received a Bachelors of Science Degree in Electrical Engineering from
728 Southern Illinois University, and in 1986, I received a Masters Degree in Business
729 Administration with a concentration in Finance from the University of Illinois at
730 Springfield. I have also completed several graduate level economics courses.

731 In August of 1983, I accepted an analyst position with the Illinois Commerce
732 Commission ("ICC"). In this position, I performed a variety of analyses for both formal
733 and informal investigations before the ICC, including: marginal cost of energy, central
734 dispatch, avoided cost of energy, annual system production costs, and working
735 capital. In October of 1986, I was promoted to the position of Senior Analyst. In this
736 position, I assumed the additional responsibilities of technical leader on projects, and
737 my areas of responsibility were expanded to include utility financial modeling and
738 financial analyses.

739 In 1987, I was promoted to Director of the Financial Analysis Department. In
740 this position, I was responsible for all financial analyses conducted by the staff.
741 Among other things, I conducted analyses and sponsored testimony before the ICC
742 on rate of return, financial integrity, financial modeling and related issues. I also
743 supervised the development of all Staff analyses and testimony on these same
744 issues. In addition, I supervised the Staff's review and recommendations to the
745 Commission concerning utility plans to issue debt and equity securities.

746 In August of 1989, I accepted a position with Merrill-Lynch as a financial
747 consultant. After receiving all required securities licenses, I worked with individual
748 investors and small businesses in evaluating and selecting investments suitable to
749 their requirements.

750 In September of 1990, I accepted a position with Drazen-Brubaker &
751 Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. ("BAI")
752 was formed. It includes most of the former DBA principals and Staff. Since 1990, I
753 have performed various analyses and sponsored testimony on cost of capital,
754 cost/benefits of utility mergers and acquisitions, utility reorganizations, level of oper-
755 ating expenses and rate base, cost of service studies, and analyses relating industrial
756 jobs and economic development. I also participated in a study used to revise the
757 financial policy for the municipal utility in Kansas City, Kansas.

758 At BAI, I also have extensive experience working with large energy users to
759 distribute and critically evaluate responses to requests for proposals ("RFPs") for
760 electric, steam, and gas energy supply from competitive energy suppliers. These
761 analyses include the evaluation of gas supply and delivery charges, cogeneration
762 and/or combined cycle unit feasibility studies, and the evaluation of third-party

763 asset/supply management agreements. I have participated in rate cases on rate
764 design and class cost of service for electric, natural gas, water and wastewater
765 utilities. I have also analyzed commodity pricing indices and forward pricing methods
766 for third party supply agreements, and have also conducted regional electric market
767 price forecasts.

768 In addition to our main office in St. Louis, the firm also has branch offices in
769 Phoenix, Arizona and Corpus Christi, Texas.

770 **Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

771 **A** Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of
772 service and other issues before the Federal Energy Regulatory Commission and
773 numerous state regulatory commissions including: Arkansas, Arizona, California,
774 Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas,
775 Louisiana, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, North
776 Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Vermont,
777 Virginia, Washington, West Virginia, Wisconsin, Wyoming, and before the provincial
778 regulatory boards in Alberta and Nova Scotia, Canada. I have also sponsored
779 testimony before the Board of Public Utilities in Kansas City, Kansas; presented rate
780 setting position reports to the regulatory board of the municipal utility in Austin, Texas,
781 and Salt River Project, Arizona, on behalf of industrial customers; and negotiated rate
782 disputes for industrial customers of the Municipal Electric Authority of Georgia in the
783 LaGrange, Georgia district.

784 Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR
785 ORGANIZATIONS TO WHICH YOU BELONG.

786 A I earned the designation of Chartered Financial Analyst ("CFA") from the CFA
787 Institute. The CFA charter was awarded after successfully completing three
788 examinations which covered the subject areas of financial accounting, economics,
789 fixed income and equity valuation and professional and ethical conduct. I am a
790 member of the CFA Institute's Financial Analyst Society.

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